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BEFORE THE ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

2017 APR 21 P 3:25

TOM FORESE- Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD DUNN

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-16-0036

Arizona Corporation Commission

DOCKETED

APR 21 2017

DOCKETED BY

IN THE MATTER OF FUEL AND
PURCHASED POWER PROCUREMENT
AUDITS FOR ARIZONA PUBLIC SERVICE
COMPANY.

DOCKET NO. E-01345A-16-0123

**STAFF'S NOTICE OF FILING
SUPPLEMENTAL RESPONSES**

On April 19, 2017, the Utilities Division Staff of the Arizona Corporation Commission ("Commission") filed its responses to the specific questions posed to Staff by Commissioner Burns in his April 11, 2017 letter to parties. In its response to Question 10 (c) through (e), Staff indicated that it would ask its expert witness to perform the requested calculations and when they became available Staff would update its filing. Attached are Staff's updated responses to Question 10 (c) through (e). These responses supplement Staff's responses to these questions contained in its filing of April 19, 2017.

RESPECTFULLY SUBMITTED this 21st day of April 2017.

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On this 21st day of April, 2017, the foregoing document was filed with Docket Control as an Utilities Division Notice of Filing - Miscellaneous, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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Arizona Public Service Company Rate Case
Docket Nos. E-01345A-16-0123; E-01345A-16-0036
Staff Supplemental Responses to Commissioner Burns
Questions for Commission Staff Concerning the Settlement Agreement

10. Paragraph 5.3 calls for a 0.8% return on the fair value increment.
- c. All other things remaining unchanged, what would the net base rate increase be in the Settlement Agreement if the return on the fair value increment is zero, 0.1%, 0.3%, 0.5% and 0.7%?
 - d. What overall rate of return on the original cost rate base results from the operating income agreed to in the Settlement Agreement?
 - e. While recognizing no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13%, what cost of equity provides the same operating income as the Settlement Agreement?

APRIL 21, 2017 SUPPLEMENTAL RESPONSE TO PARTS C, D AND E:

- c. The requested calculations are shown in the following table:

Arizona Public Service Company
Components of Base Rate Increase
Test Year Ended December 31, 2015
(Thousands of Dollars)

Line No.	Component	Per Settlement Agreement Amount at 0.8% FVRB Increment	Calculations requested in Commissioner Burns Request to Staff item 10(c):				
			Amount at Other Lower FVRORs on the FVRB Increment				
			0.70%	0.50%	0.30%	0.10%	0%
1	Non-Fuel, Non-Depreciation Increase	\$ 87,250	\$ 87,250	\$ 87,250	\$ 87,250	\$ 87,250	\$ 87,250
1a	Reduction based on lower FVROR		\$ (5,185)	\$ (15,555)	\$ (25,924)	\$ (36,294)	\$ (41,479)
2	Depreciation Expense Increase	\$ 61,000	\$ 61,000	\$ 61,000	\$ 61,000	\$ 61,000	\$ 61,000
3	Non-Fuel Base Rate Increase	\$ 148,250	\$ 143,065	\$ 132,695	\$ 122,326	\$ 111,956	\$ 106,771
4	Base Fuel Rate Decrease	\$ (53,626)	\$ (53,626)	\$ (53,626)	\$ (53,626)	\$ (53,626)	\$ (53,626)
5	Net Base Rate Increase Before Adjustors	\$ 94,624	\$ 89,439	\$ 79,069	\$ 68,700	\$ 58,330	\$ 53,145
6	Transfer from Adjustment Mechanisms	\$ 267,953	\$ 267,953	\$ 267,953	\$ 267,953	\$ 267,953	\$ 267,953
7	Total Base Rate Increase	\$ 362,577	\$ 357,392	\$ 347,022	\$ 336,653	\$ 326,283	\$ 321,098
8	Change from Settlement Agreement (Reduction)		\$ (5,185)	\$ (15,555)	\$ (25,924)	\$ (36,294)	\$ (41,479)
					Difference from Settlement Agreement (Reduction)	Staff GRCF	Estimated Change (Reduction) to Non-Fuel Non-Depreciation Revenue Requirement
FVROR per Settlement Agreement			FVRB Increment	FVROR 0.80%	FV Return \$ 25,639		
Alternative FVROR-based calculations			Alternative FVRORs				
		\$ 3,204,872	0.70%	\$ 22,434	\$ (3,205)	1.6178	\$ (5,185)
		\$ 3,204,872	0.50%	\$ 16,024	\$ (9,615)	1.6178	\$ (15,555)
		\$ 3,204,872	0.30%	\$ 9,615	\$ (16,024)	1.6178	\$ (25,924)
		\$ 3,204,872	0.10%	\$ 3,205	\$ (22,434)	1.6178	\$ (36,294)
		\$ 3,204,872	0%	\$ -	\$ (25,639)	1.6178	\$ (41,479)

- d. The overall rate of return on OCRB would be 8.225 percent. See calculations following the response to part e for detail.

- e. A cost of equity of approximately 10.677% percent provides the same operating income as the Settlement Agreement if no fair value increment in the capital structure or rate base and using a capital structure comprised of 55.8% equity and 44.2% debt at 5.13% is used.

Arizona Public Service Company Rate Case
Docket Nos. E-01345A-16-0123; E-01345A-16-0036
Staff Supplemental Responses to Commissioner Burns
Questions for Commission Staff Concerning the Settlement Agreement

The calculations used to answer parts d and e are shown below:

Arizona Public Service Company
 Capital Structure & Cost Rates
 Test Year Ended December 31, 2015
 (Thousands of Dollars)

Line No.	Capital Source	Per Settlement Agreement				Used for Requested Calculations	
		Capitalization		Cost	Weighted Avg.	Estimated Total	Estimated
		Amount	Percent	Rate	Cost of Capital	Return on Rate Base	Equity Return
		(A)	(B)	(C)	(D)	(E)	(F)
I. Return on Original Cost Rate Base Settlement Agreement							
1	Short-Term Debt	\$ -			0.00%		
2	Long-Term Debt	\$ 2,999,275	44.20%	5.13%	2.27%	\$ 153,863	
3	Common Stock Equity	\$ 3,786,414	55.80%	10.00%	5.58%	\$ 378,641	\$ 378,641
4	Total Capital	\$ 6,785,689	100.00%		7.85%		
II. Return on Fair Value Rate Base Settlement Agreement							
5	Short-Term Debt	\$ -	0.00%	0.00%	0.00%		
6	Long-Term Debt	\$ 2,999,275	30.02%	5.13%	1.54%		
7	Common Stock Equity	\$ 3,786,414	37.90%	10.00%	3.79%		
8	Capital financing OCRB	\$ 6,785,689					
9	Appreciation above OCRB not recognized on utility's books	\$ 3,204,872	32.08%	0.8% [a]	0.26% [b]	\$ 25,639	\$ 25,639
10	Total capital supporting FVRB	\$ 9,990,561	100.00%		5.59%		
Alternative calculations requested in Commissioner Burns Request to Staff item 10(d):							
11	Estimated total return on rate base					\$ 558,143.2	
12	Original Cost Rate Base					\$ 6,785,689	
13	Overall Rate of Return on OCRB from the Settlement Agreement Operating Income					<u>8.225%</u>	
Alternative calculations requested in Commissioner Burns Request to Staff item 10(e):							
14	Total common equity return at FVRB Increment						\$ 404,280
15	Total common equity in OCRB-Based Capital Structure						\$ 3,786,414
16	Cost of Equity that provides the same operating income as the Settlement Agreement						<u>10.677%</u>